Schneider Trading Associates Limited

Conflicts of Interest Policy

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Introduction

Under the Financial Conduct Authority ("**FCA**") Principles for Businesses - Principle 8 (PRIN 2.1.1.8) and SYSC rules (FCA SYSC 10.1) STA are required to identify and manage conflicts of interest fairly.

A conflict of interest is a situation in which someone in a position of trust has a competing professional or personal interest. Such competing interests can make it difficult to fulfil duties impartially. A conflict of interest may exist even if no unethical or improper act results from it.

Firms in the financial services industry will commonly encounter two types of conflict:

- A conflict between either the firm's (including its directors, managers, employees and appointed representatives) own interests and that of its clients
- A conflict between interests of two clients.

Schneider Trading Associates Limited ('STA') is committed to avoiding situations that might interfere with making decisions in the best interests of clients. Each STA control function or worker is expected to consider carefully the following as potentially a conflict of interest:

- Their involvement of service as a manager or board member of any other firm
- Any outside business activity
- Any connections with the counterparties STA actively does business with
- The fees or commissions from counterparty clients
- Competing requirements between clients
- To receive or give entertainment that is not reasonable in cost or appropriate as to time, place and occurrence
- To receive or give gifts in excess of STA's set parameter
- In the influence upon hiring, evaluation or compensation of any family member

In the event conflicts are not properly identified and managed, they could lead to at least one of the following:-

- Non-compliance with the FCA's Principle 6 whereby the firm should always act in the best interests of its clients;
- A loss of revenue for the firm;
- Legal action being taken against the firm either by clients or the regulator;
- Supervisory and enforcement action against either the firm or its controlled function staff

Conflicts of Interest

Conflicts of Interest appear in situations where STA:

- Carries on the same business as the client; or
- Receives or will receive from a person other that the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service.
- Is likely to make a financial gain, or avoid a financial loss, at the expense of the client
- Has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the clients interest in that outcome
- Has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client

STA must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest from constituting or giving rise to a material risk of damage to the interest of its clients. This is normally achieved by managing the conflicts of interest that is by taking reasonable steps in one or more of the following ways:

- Managing the conflicts internally; or
- Establishing specials arrangements such as Information Barriers; or
- Disclosing our interest to the client
- Declining to act for a client

Managing Conflicts

STA may be able to demonstrate that it has taken reasonable steps to ensure fair treatment for its clients by relying on this Conflicts of Interest policy. In such cases, relevant brokers and partners are required to disregard any material interest or conflict of interest when advising or dealing with a client. If considered appropriate by the Directors, STA may at its discretion, disclose its material interest or conflict of interest to the client.

The FCA requires firms to identify all known conflicts, along with the method of dealing with the conflict. This information is located in the firms' high level Conflicts of Interest Framework documentation.

The measures for dealing with conflicts are designed to ensure that relevant persons engaged in different business activities involving a conflict of interest carry on those activities at a level of independence, appropriate to the size and activities of STA and any associated entities and to the materiality of the risk of damage to the interests of clients.

Examples of types of procedures for managing conflicts

- Effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients.
- The separate supervision of relevant persons whose principal functions involve carrying out the activities on behalf of, or providing services to clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of our firm
- The removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities.
- Measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out services or activities and
- Measures to prevent or control the simultaneous or sequential involvement or a relevant person in separate services or activities where such involvement may impair the proper management of conflicts of interest
- Creating procedures in relation to the execution of client orders which enable the firm's management to monitor the achievement of best execution for clients to whom a duty of best execution is owed and demonstrate that orders have been executed in accordance with the firm's policy

Information Barriers

The term Information Barrier is an arrangement that requires information held by a person in the course of carrying on one part of its business to be withheld from, or not to be used for, persons with or for whom it acts in the course of carrying on another part of its business. This is another method in which STA can manage conflicts of interest.

The FCA's rules with regard to Information Barriers are set out in SYSC 10.2.STA has adopted these rules in determining its own policies with regard to Information Barriers which are as follows:

- When STA establishes and maintains an Information Barrier wall it may:
  - Withhold or not use the information held and
  - For that purpose, permit persons involved in the first part of its business to withhold the Information held from those involved in that other part of the business

But only to the extent that the business of one of those parts involves the carrying on of activities regulated under FSMA or ancillary activities.

- Information may also be withheld or not used by the firm when this is required by an established arrangement maintained between different parts of the business (of any kind) in the same group. This provision does not affect any requirement to transmit or use information that may arise apart from regulatory rules.

- For the purpose of this rule, "maintains" includes taking reasonable steps to ensure that the arrangements remain effective and are adequately monitored and must be interpreted accordingly.

Attribution of knowledge

When any regulatory rules apply to STA when it acts with knowledge, the firm will not be taken to act with knowledge for the purposes of that rule if none of the relevant individuals involved on behalf of the firm acts with that knowledge as a result of arrangement established under SYSC 10.2.2 R

Where STA established and maintains an Information Barrier, individuals on the "other side of the barrier" will not be regarded as being in possession of knowledge denied to them as a result of the Barrier. Acting as outlined above does not amount to market abuse, making misleading statements or engaging in misleading practices.

The Information Barrier procedures exist to protect employees from allegations of failing to use all available information when acting on behalf of their clients. STA provides no Corporate Broking services. STA maintains Information Barriers as a matter of good practice.

Segregation of Duties

STA strives to ensure that the performance of multiple functions by its relevant persons does not and is not likely to prevent those persons from discharging any particular functions soundly, honestly and professionally. Our policies concerning the segregation of duties within the firm and the prevention of conflicts of interest are laid out below.

STA is aware that effective segregation of duties is an important element in the internal controls of a firm in the prudential context. In particular, it helps to ensure that no one individual is completely free to commit the firm's assets or incur liabilities on its behalf. Segregation also helps to ensure that the firms governing body received objective and accurate information on financial performance, the risks faced by the firm and the adequacy of its systems.

STA ensure that in general no single individual has unrestricted authority to do all of the following:

- Initiate a transaction
- Bind the firm
- Make payments; and
- Account for the transaction

Where STA is unable to ensure the complete segregation of duties due to its limited workers base, it has adequate compensating controls in place including the frequent review of an area by relevant senior partners.

Personal Account Dealing

STA recognises that workers may wish to deal on their own behalf. This could create a conflict with the duties owed to clients. STA has a PA Dealing Policy that among other matters prohibits dealing ahead of client orders and restricts dealing in an investment of any client or prospective client.

Prior permission is required before dealing and copies of all contract notes are received and kept. PA Dealing is monitored by the Compliance Department.

Fees & Commissions

Remuneration to STA Brokers is by way of a profit share arrangement based on the amount of commission income they or their team generate through the arrangement and execution of transactions.

STA may receive fees or commissions from counterparties (including market maker clients on the other side of a client trade). Where this is the case STA will disclose this to relevant clients and in addition we have clear and appropriate conflicts management procedures in place to ensure that such fees and commission do not damage our client's best interests.

<u>Specific Conflicts of interest arising from payment for order flow (PFOF</u>)

When STA acts for eligible counterparties in providing execution services for listed derivatives (which we refer to as our "listed derivative business") save where transactions are executed on screen on the exchange order book, we may receive payment from the eligible counterparty originating the order and also from the counterparty with whom the trade is then executed. The payment we receive from the counterparty is referred to in regulatory terms as a payment for order flow. This is because the payment we receive from the counterparty is in return for us placing the order of the originator (our client) with the relevant counterparty.

We have identified PFOF as creating a potential conflict of interest between those eligible counterparties for whom we execute transactions in listed derivatives and STA. The principal reasons for this are:

Where brokers such as STA route orders to market makers willing to pay for order flow the duty owed by STA to act in the best interests of our clients may be compromised.

Market makers engaging in PFOF may indirectly affect the interests of the underlying client by recovering PFOF in the spread of prices shown to brokers.

For the avoidance of doubt, if we have categorised a client as a professional client and we execute their order with a counterparty who is acting as a market maker, we will not receive 'payment for order flow' from that counterparty.

We have taken a number of steps to manage this potential conflict –

- We charge the same rate of commission by way of PFOF to the Market Makers with whom we execute listed derivative business. This helps STA brokers select the Market Maker on the basis of the best outcome for the client considering a range of execution factors not simply payments.
- We closely monitor the amount of PFOF charged to counterparties and the underlying clients involved

Disclosing an Interest

If arrangements made by STA to manage conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interest of a client will be prevented (or where disclosure is part of arrangements to manage conflicts of interest) STA will clearly disclose the general nature and/or sources of conflicts of interest to the client before undertaking business for the client. The disclosure of conflicts of interest by a firm does not exempt it from the obligation to maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest from constituting or giving rise to a material risk of damage to the interests of clients.

The disclosure will:

- Be made in a durable medium and
- Include sufficient detail, taking into account the nature of the client, to enable that client to take an informed decision with respect to the service in the context of which the conflict of interest arises.

Disclosing an interest to a client would normally be required where the firm has an interest in a transaction on which it is advising or where the firm derives or will derive, consultancy, non-executive partner or other fees from clients involved in a transaction.

Disclosure of a material interest or conflict of interest to a client must be made in writing. Oral disclosure is to be avoided. Disclosure must be made before we advise or otherwise act for our client on a transaction and we must be able to demonstrate that we have taken reasonable steps to ensure that the client does not object to our material interests or conflict of interest.

Anti-Bribery

The Bribery Act 2010 has been introduced to bring the UK in line with the international standards of anti-corruption legislation. It is a criminal offence to give or receive a bribe and firms can be held liable for failing to prevent bribery.

The Serious Fraud Office is empowered to prosecute both domestic and foreign firms where they have a presence of some form in the UK. Bribes committed in the UK and abroad could be prosecuted under the Bribery Act.

STA is committed to conducting business in a fair, honest and transparent manner and expects everyone who performs services for or on its behalf to conduct business in the same way. Corruption of any kind is detrimental not only to STA but also the wider community. STA has Anti-Bribery and corruption procedures, which include gifts and entertainment policies, applying to all senior managers, partners and brokers. Details are provided to all workers on joining STA.

Whistleblowing

A whistleblowing policy is in place for all workers within STA.

Gifts & Entertainment

STA has in place a Gifts and Entertainment policy which aims to detail the stance of STA with respect to the gifts and entertainment and ensure brokers and partners understand their obligations. It also details the correct procedure that should be followed by STAs brokers and workers to comply with its Anti-Bribery and not become involved with a conflict of interest.

The clients Gifts and Entertainment registers are reviewed monthly as part of the firms' regular compliance monitoring procedures.

Declining to Act

If STA determines that it is unable to manage conflict of interest using one of the methods described above, we may decline to act on behalf of the client concerned.